

Message Text

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ACTION NODS-00

INFO OCT-01 ISO-00 /001 W

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R 191716Z JUN 75

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC 6753

S E C R E T OTTAWA 2290

NODIS

FOR ENDERS FROM KATZ

E.O. 11652: XGDS

TAGS: ENRG, CA, US

SUBJECT: NEB REPORT OF NATURAL GAS SUPPLY

1. ON JUNE 18, I WAS INVITED TO A PRIVATE MEETING BY EXTAFF UNDER SECRETARY BASIL ROBINSON ALONG WITH GORDON MACNABB AND BILL HOPPER (DEPUTY MINISTER AND ASSISTANT DEPUTY MINISTER RESPECTIVELY AT DEPARTMENT OF ENERGY, MINES AND RESOURCES) TO DISCUSS THE NEB REPORT ON CANADIAN NATURAL GAS SUPPLY AND ITS POTENTIAL IMPACT ON U.S. GAS SUPPLY. I WAS ACCOMPANIED BY RAICHT AND LEARY.

2. CANADIANS WERE VERY FRANK IN DESCRIBING REPORT AND THEIR CONCERNS ABOUT PROBLEMS IT COULD CREATE FOR GOC IN DOMESTIC POLITICAL TERMS, AS WELL AS IN ITS RELATIONS WITH U.S. MACNABB SAID THAT HE DID NOT LIKE REPORT'S PRESENTATION, WHICH LENDS ITSELF TO INFLAMMATORY PUBLIC TREATMENT. LATTER VIEW NOT SHARED BY NEB CHAIRMAN MARSHALL CROWE (I WILL SEE HIM THURSDAY AFTERNOON), WHO DIRECTED PREPARATION OF REPORT.

3. THE NEB REPORT IS VERY PESSMISTIC, MORE SO THAN EXPECTED, ON CANADIAN ABILITY TO MEET DOMESTIC DEMAND AND CONTINUE EXPORTS AT CONTRACT LEVELS. WITH

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EXISTING SUPPLIES FROM CONVENTIONAL PRODUCING AREAS,

SUPPLY/DEMAND CROSSOVER WILL OCCUR IN 1979. EVEN ASSUMING THAT GAS SUPPLY INCREASES FROM TRADITIONAL PRODUCING AREAS AND DOMESTIC DEMAND FALLS IN RESPONSE TO SUBSTANTIAL PRICE INCREASES (WHICH HOPPER SAID WOULD BE ANNOUNCED WITHIN NEXT TWO WEEKS AND RAISE DOMESTIC PRICE TO ABOUT THREE TIMES CURRENT LEVEL), THIS WILL BE DELAYED ONLY UNTIL MID-1980S. AVAILABILITY OF NEW SUPPLIES FROM ARCTIC COULD ENABLE CANADA TO SQUEAK THROUGH, BUT THERE HAS NOT YET BEEN DECISION ON MACKENZIE VALLEY PIPELINE. THUS IT IS CLEAR THAT CANADIANS WILL HAVE TO ALLOCATE GAS IN CANADA AND "CURTAIL SOME EXPORTS."

4. DOMESTIC POLITICAL PROBLEMS FOR GOC WILL BE QUITE SUBSTANTIAL. THERE WILL BE STRONG PRESSURE TO STOP EXPORTS IMMEDIATELY. HOWEVER, STUDY INDICATES COMPLETE CESSATION OF EXPORTS WOULD NOT HELP -- OSTENSIBLY ADDING AT MOST SEVERAL ADDITIONAL MONTHS TO CROSSOVER DATE -- BUT IN FACT COULD HURT BY REDUCING CASH FLOW TO PRODUCERS NECESSARY FOR COMBINED EXPLORATION AND DEVELOPMENT.

5. MACNABB AND ROBINSON SAID CANADA WISHED TO CONSULT FULLY WITH USG ON HOW TO MINIMIZE IMPACT IN U.S. OF ANY EXPORT CURTAILMENTS. MACNABB SAID FIRST SERIOUS SHORTFALLS WILL NOT OCCUR BEFORE 1976-7 HEATING SEASON, PROVIDING TIME TO DISCUSS SIZE AND IMPACT OF CURTAILMENTS WITH U.S. TO LESSEN PROBLEMS. NEB REPORT RECOMMENDS THAT ALL "REASONABLE" CANADIAN DEMANDS BE MET BEFORE EXPORTS. "REASONABLE" CANADIAN DEMAND NOT YET DEFINED, BUT GOC WILL RESTRICT INEFFICIENT GAS USE (E.G. RESTRICTIONS ON USE AS BOILER FUEL) TO LIMIT GROWTH IN CANADIAN DEMAND. CANADA WILL MOVE SHORTLY TO GIVE NEB AUTHORITY TO ALLOCATE GAS ON INTER-PROVINCIAL BASIS.

6. I STRESSED OUR SERIOUS CONCERN AT THE PROSPECT OF REDUCTION IN GAS EXPORTS IN VIEW OF EXISTING SERIOUS SHORTAGES IN DOMESTIC SUPPLY. DECREASE IN EXPORTS FROM CANADA WOULD WORSEN SITUATION AND WOULD HAVE

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VERY SEVERE IMPACT IN CERTAIN REGIONS. I SAID I WAS ALSO CONCERNED BECAUSE OF THE ADVERSE EFFECT THIS DECISION WOULD HAVE-- ON TOP OF EARLIER CANADIAN ACTIONS ON OIL AND GAS PRICES AND OIL EXPORTS -- ON THE ENTIRE RANGE OF OUR BILATERAL RELATIONS. WE APPRECIATED OFFER OF CONSULTATIONS AND CHANCE TO WORK WITH GOC.

7. CANADIANS EXPECT REPORT WILL BE MADE PUBLIC
IN MID-JULY. THEY WILL PROVIDE US WITH ADVANCE COPY.
THEY WOULD PLAN TO HAVE FIRST CONSULTATIONS END JULY
OR EARLY AUGUST.

8. I HAVE MADE THIS MESSAGE NODIS BECAUSE OF CANADIAN
SENSITIVITY ABOUT PREMATURE DISCLOSURE CONTENTS
REPORT WHICH HAS SO FAR NOT LEAKED. (INFORMATION
ABOUT PROSPECTIVE DOMESTIC GAS PRICE INCREASES IS ALSO
EXTRMELY SENSITIVE PENDING PUBLIC ANNOUNCEMENT BY
GOC WHICH MAY OCCUR WHEN NEW BUDGET IS BROUGHT DOWN
ON EVENING OF JUNE 23.) THEY ARE VERY CONCERNED
OVER POSSIBLE DOMESTIC POLITICAL IMPACT OF REVEALING
THEY HAD CONSULTED WITH US IN ADVANCE OF PUBLICATION
OF NEB REPORT. I WILL HAVE RECOMMENDATIONS FOR YOU
ON HANDLING OF CONSULTATION UPON MY RETURN. IN
MEANTIME YOU MAY WISH TO PASS THIS TO FRANK ZARB
WITH REQUEST THAT HE HANDLE VERY CAREFULLY SO AS TO
AVOID LEAKS.
PORTER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM, SUPPLIES, ECONOMIC CONDITIONS, REPORTS, CAT-B
Control Number: n/a
Copy: SINGLE
Draft Date: 19 JUN 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975OTTAWA02290
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: X1
Errors: N/A
Film Number: P840125-2629
From: OTTAWA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750634/aaaabfev.tel
Line Count: 135
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NODS
Original Classification: SECRET
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: NODIS
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: SECRET
Previous Handling Restrictions: NODIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 06 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <06 MAY 2003 by BoyleJA>; APPROVED <07 MAY 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: NEB REPORT OF NATURAL GAS SUPPLY
TAGS: ENRG, CA, US
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006